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SIPDIS, SENSITIVE

TREASURY FOR FTAT, OCC/SIEGEL, AND OASIA/ICB/MAIER
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SUBJECT: Austrian Government to Nationalize Central Bank Minority
Shares

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Sensitive but unclassified -- protect accordingly.

¶1. (SBU) SUMMARY: Finance Minister Josef Proell plans to purchase the 30% of shares in Austria's central bank (Nationalbank/OeNB) which are currently owned by private Austrian banks/insurers and Austria's Economic Chamber. Proell argues that central bank ownership by private banks and insurance companies (a relic of Austria's post-war "social partnership") is incompatible with the OeNB's growing role as a financial supervisor. Coalition partner SPOe and Austria's opposition parties like the idea; private shareholders expressed misgivings and outright opposition in the case of the Economic Chamber. While the OeNB's independence is guaranteed by law, the move should be viewed in the light of government profit-taking in recent years, which has depleted the Nationalbank's reserves. END SUMMARY.

Central Bank Shareholder Structure

¶2. (U) On January 11, Finance Minister Josef Proell (OVP) proposed that the GoA take full ownership of the Austrian Nationalbank (OeNB), Austria's central bank and an integral part of the Eurosystem and European System of Central Banks (ESCB).

¶3. (U) The Nationalbank/OeNB is a public stock corporation with EUR 12 million share capital. Its current shareholders are:
-- Austrian government (70.3%)
-- Raiffeisen banking group (9.7%)
-- Economic Chamber (8.3%)
-- B&C Holding (4.3%) -- a Bank Austria trust fund for the bank's shareholding in various firms including the OeNB
-- five insurance companies (4.7%)
-- Federation of Austrian Industry (2.0%) -- a lobbying group for large companies
-- Other institutions (0.8%)

Justification and Initial Reactions

¶4. (U) Proell argued that the OeNB's shareholder structure is anachronistic and a barrier to effective oversight. The OeNB's role in bank supervision is incompatible with those same private banks and insurance companies holding shares in a supervisory authority, according to Proell. Proell hinted that the financial crisis and specifically poor oversight of troubled Hypo Alpe Adria (reftel) gave the idea the final push. Proell reportedly is willing to pay up to EUR 50 million for the outstanding 30% shares

¶5. (U) The SPOe and Austria's opposition parties (FPOe, Greens, BZÖe) have regularly sought full nationalization of the OeNB in recent years; all indicated approval of Proell's plan as a first

step towards broader reform of finance. In contrast, most of the OeNB's current private shareholders (who are being asked to sell) expressed reluctance; the Federal Economic Chamber is against the plan.

Background on Central Bank Structure

15. (U) In recent years, the "social partnership" shareholder structure of the OeNB has eroded to the benefit of the GoA. As part of post-war reconstruction, the OeNB was constituted with shareholding by employer and labor federations along with banks allied with either the conservative or social-democratic camps. Until the late 1990s, the OeNB's shareholder structure was as follows:

GoA 50%
-- Austrian Trade Union Federation and Federal Economic Chamber / each 8.3%
-- Federation of Austrian Industry 2.0%
-- BAWAG-PSK banking group 11.9%
-- Raiffeisen banking group 9.6%
-- five insurance companies 4.7%
-- Bank Austria 4.3%
-- Other institutions 0.8%.

In 2006, the shareholder structure changed significantly following the near collapse of BAWAG-PSK, when BAWAG-PSK and its then-owner (the Austrian Trade Union Federation) were induced to sell their central bank shares to the GoA.

COMMENT

16. (SBU) Given the support of the other parties, Proell should have no political problems nationalizing the central bank. Under the OeNB Act, each transfer of shares requires only the express approval

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of the OeNB's General Meeting: thus Proell's plan does not entail any legal changes, but the GoA does need to bring current shareholders on its side (none can be compelled to sell its stake, except by moral suasion).

17. (SBU) The move will symbolically bring the OeNB into the international mainstream (since most central banks worldwide are owned by governments) and was portrayed in media outlets as a positive assertion of government authority following poor oversight of Hypo Alpe Adria by the OeNB/FMA. Practically nothing will change in the distribution of OeNB revenues -- since the GoA already takes 97% of central bank profit (see below) -- and nationalization does not directly threaten central bank independence, which is guaranteed by Austrian law and the ECB charter. In the Austrian context, however, the move will raise several issues:

-- In Austria, central bank independence was traditionally bolstered by having shareholders on "both sides" of the political fence (even when one political party controlled the government).

-- A new shareholder structure will entail personnel changes on the OeNB General Council (the bank's supervisory board). As 100% owner, only the GoA will appoint members to the bank's General Council. Currently, the GoA appoints the President, the Vice President and six members of the General Council, while the General Meeting of all shareholders appoints the other six members.

-- The biggest question is how much revenue the OeNB can retain to bolster reserves. Legal changes implemented in 1997 stipulate that the GoA gets 90% of the OeNB's after-tax profit (even though it holds just 70% of the shares); the remaining 10% is paid as dividend payments, of which the GoA gets another 70% take. That profit structure, and GoA pressure on the OeNB in past years to distribute as much profit as possible, have led to a partial depletion of OeNB reserves. Since 1999, the OeNB's core capital ("own funds") has fallen by half, to less than EUR 15 billion. As the central bank's 2008 annual report puts it: "...changes in the legal framework for the OeNB and high profit transfers in previous years have markedly reduced the OeNB's reserves. In the long run, the OeNB's earning

power and risk-bearing capacity do have their limits." END
COMMENT.

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